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UNCLAS SECTION 01 OF 02 KINSHASA 000249

SIPDIS

SENSITIVE

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TREASURY FOR OWHYCHE-SHAW

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TAGS: ECON EFIN PGOV CG

SUBJECT: DRC IN ROUGH ECONOMIC SHAPE AS GOVERNMENT IS  
INSTALLED AND IMF REVIEW BEGINS

REF: KINSHASA 1608

**¶1. (SBU) Summary.** The DRC is facing renewed macroeconomic problems and budgetary uncertainty as the new government is being installed and an IMF Staff-Monitored Program review begins. Inflation and the exchange rate have risen sharply in the first two months of 2007, and there has been significant government overspending in January and February. End summary.

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Macroeconomic Woes Worsen, Again  
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**¶2. (U)** Following a month-long period of creeping devaluation of the Congolese franc (FC) that began in mid-January the exchange rate has risen rapidly in the last half of February, soaring to over 560 FC/USD. This, following a brief period at the end of 2006 and the beginning of 2007, after the inauguration of President Kabil, during which the CF remained at about 500 FC/USD. Since mid-January, during the period of uncertainty surrounding the formation of the new Gizenga government and the absence of a 2007 budget, the exchange rate has crept up, slowly at first and more rapidly during the past two weeks. Inflation has also risen significantly during January and February, after December 2006 deflation of over two percent. Economic Section market basket calculations indicated a nearly four percent inflation rate for January, and this trend appears to have continued throughout February.

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Prospects for 2007 Budget  
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**¶3. (U)** There has been no visible progress yet on a 2007 budget. An extraordinary session of the newly-elected National Assembly in January and February was organizational in nature and did not deal with budget issues. A government was formed and confirmed on February 24. According to pronouncements by PM Gizenga and other new GDRC ministers, the 2007 budget is a top priority and is on the agenda of the National Assembly when it begins business officially in mid-March. (Note: The DRC Senate is not fully operational yet and will also have to sign off on the 2007 budget, meaning another possible delay in its passage. End note.) Meanwhile, the GDRC is operating on the Congolese version of a CBR, referred to here as "provisional credits" ("credits provisoires"). Last year's budget figure (just under two

billion dollars) was divided into equal monthly allotments, and this amount is assumed to be sufficient for ongoing, normal operations.

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How Much Overspending?  
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14. (SBU) Unsubstantiated media reports say that the total amount of GDRC overspending for the months of January and February 2007 amounted to over 26 billion Congolese francs, nearly USD 50 million at current exchange rates. Local IMF sources would only confirm to Econcouns that the GDRC was over budget for the two months by at least FC 20 billion, or around USD 40 million. The IMF felt that this overspending, whether USD 40 or USD 50 million, was the main reason for the rapid devaluation of the FC observed in February. By the end of the two-week review of the Staff-Monitored Program (SMP) on March 13, the IMF's first visit since October 2006 (reftel), we should know what the actual GDRC overspending was, and in which budget categories, for January and February 2007.

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Comment  
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15. (SBU) The latest decline in the macroeconomic situation in the DRC, along with the continuing uncertainty over the 2007 budget, comes at a crucial point for the GDRC. The new government must begin immediately to put its economic house in order if it hopes to negotiate a new program with the IMF before June. Only by doing so will it have a chance of

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getting the new program reviewed by December and achieving HIPC completion point. With significant external debt falling due in the second half of 2007, the time factor is critical. It appears to us, however, the June target may simply be too ambitious. If new program implementation slips to September, a distinct possibility, it will have significant consequences. The post-election expectations of Congolese citizens are very high, and the new government can only deliver on its promises by getting on the right track with the Bretton Woods institutions. We will use every opportunity to underscore the importance and urgency of this issue with the new GDRC officials, and other major donors have indicated that they will do likewise. End comment.

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